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STATEMENT BY
L. J. ANDOLSEK, PRESIDENT
NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE
HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON
THE DEVELOPMENT OF A SUPPLEMENTAL RETIREMENT PLAN FOR NEW FEDERAL EMPLOYEES

MARCH 13, 1984

I am L. J. Andolsek, President of the National Association of Retired Federal Employees (NARFE), an organization founded in 1921, a year after enactment of the Civil Service Retirement Act, for the sole purpose of enhancing the rights of Federal retirees and maintaining a sound and equitable Federal retirement system. Over the years, NARFE has grown to an association of some half-a-million dues-paying members and is the largest membership organization in the Federal sector. NARFE's goals today are unchanged from those originally set forth by our founders. We are, therefore, critically interested in the issue being researched and considered by this Committee--the development of a supplemental retirement program for Federal employees hired after December 31, 1983 and by statute, mandatorily covered by the Social Security System.

While our primary concern is necessarily the benefits and continued fiscal solvency of the current Civil Service Retirement System (CSRS) on which our membership is dependent for their retirement income, we are also deeply interested in the Federal government maintaining an attractive and fair retirement program for all of its workers, present and future.

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Before addressing the specific issues of today's hearings, we would like to comment on a matter of overwhelming importance to our members. At a hearing before this Committee two weeks ago, the Director of the Office of Personnel Management stated that if nothing is done to the Civil Service Retirement System, it will go bankrupt. We contend it is his assertion that is bankrupt!

According to a report issued last April by the Congressional Research Service,

"The Civil Service Retirement System trust fund is growing larger and, with a level work force, faces no shortage as far into the future as projections can be made, since the financing mechanisms of the trust fund are designed to create intragovernmental transactions large enough to exceed benefit payments."

Contrary to the political rhetoric the current Administration spews at the public, the size of the Government's civilian work force has been stable for more than a decade, and the Civil Service Retirement Fund remains sound despite everything the Reagan Administration has said and done to undermine it. In fact, the budget proposal submitted by the President just two months ago shows a Civil Service Retirement trust fund balance of almost \$110 billion, growing to \$125 billion next year.

Having cleared the record on that critical issue, we applaud this Committee for holding these hearings to give full and cautious study to the complex issues and concepts which must be considered before developing a supplemental retirement plan for employees hired after 1983.

We will not waste the Committee's time by discussing the current Civil Service Retirement System. That System is unaffected by the extension of Social Security to newly hired Federal workers, and NARFE's views on the current system are already well documented on public record. Our comments today address the new and difficult job of designing a retirement program for post-1983 Federal hires.

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Comparability Analysis--Because the Federal government is the largest and most diverse employer in the nation, the total benefits package offered its employees must be comparable to those offered by the nation's largest private employers. This is essential since those are the employers with which the government must compete in attracting and retaining a qualified labor force. In addition, we strongly suggest that the Committee consider not only the structure of Federal versus private plans, but also their results.

As a case in point, much has been made about optional retirement at age 55 with 30 years service being available to Federal employees.

Rather than contradicting the private sector experience, however, the data which is available shows that this requirement has resulted in an average retirement age virtually identical in both the private and Federal sector. Concurrently, the 55-30 requirement provides the management flexibility necessary for any large organization to effectively utilize its work force. It encourages career employment stability, while facilitating the turnover necessary to maintain a vibrant work force. The age and service requirements of the existing Civil Service Retirement System have worked, and should be continued in the supplemental plan for new hires.

In determining comparability with the non-Federal sector, obviously the total pay and benefits package available to Federal employees should be considered as a supplemental retirement plan is developed. However, we cannot ignore the history of governmental tampering with the pay of Federal employees. The level of benefits available in retirement should not be based on a politically naive assumption that Federal pay comparability will be fully observed, and retirement benefits should be insulated from political tampering.

General Design--With the advent of Social Security coverage for new Federal employees, a guaranteed income base during retirement formerly unavailable to Government employees will exist. Other traditional sources of retirement income

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include savings and company pension plans. Although a number of defined contribution options have flourished in recent years, the majority of private sector workers are covered by defined benefit plans. The reason is simple, and the rationale unassailable. From an employer's perspective, attractive retirement plans are an important tool in attracting and retaining a qualified work force. From the worker's perspective, retirement plans must offer financial security after active employment ceases, and properly financial defined benefit plans offer the best security. A defined benefit plan allows an individual to make a retirement decision based on formulated income replacement rates, and thus plan for an adequate retirement income. NARFE believes that the basic supplemental retirement plan must be a defined benefit program. The basic income benefits of such a program could be augmented by one of the thrift or salary deferment plans which are gaining popularity.

Two cautions are necessary here, however. Private pension plans have been developed to a degree based on favorable tax treatment. Although the government is the major employer in our country, as an institution it relies on tax revenues to function. The tax reduction benefits which flow to the private sector for contributions to salary deferment plans actually lower Federal revenues, and only underscore the inherent distinction between private and public employment which makes full comparisons or comparability between them impossible.

Secondly, we cannot overlook the progressive nature of Social Security benefits. The supplemental retirement system for new Federal employees may not fully offset the progressive nature of this social insurance program. However, some offset may be needed if the supplemental program is to meet the management goals of a staff retirement program. This may well be the most complex issue to be resolved in this debate.

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Eligibility and Inflation Protection--In a previous section, we have explained why NARFE believes the age and service requirements of the supplemental retirement system should parallel the requirements in the existing system. The experience we have gained through the current 64-year old retirement program should not be discarded. The results of the current eligibility requirements speak for themselves in terms of national retirement policy and conformance with available private sector experience.

Recent changes in Civil Service cost-of-living adjustments, both enacted and proposed, have nullified full inflation protection for all annuitants. NARFE has and will oppose further diminishment of this important benefit. We recognize and strongly support the legitimate goals of automatically indexing all earned benefits to fairly compensate for inflation without regard for political whim or expediency. The conventional, and indeed, conservative wisdom at the time automatic indexing was established was to restrain overly generous adjustments being granted to program beneficiaries in election years.

We feel COLAs are critical to sound retirement planning. Individuals determine when to retire, by and large, on salary replacement. COLAs ensure retirement security at a certain standard of living, and that determined standard should not be eroded through inflation beyond the control of the individual. NARFE believes that both the social insurance program of Social Security and any new staff retirement program, like the existing system, should be automatically indexed on the basis of a Consumer Price Index measurement.

A number of proposals that would fully index only a portion of Civil Service annuities have surfaced recently as Congress has grappled with the monumental deficits contained in President Reagan's 1985 budget. NARFE would like to point out two reasons why these proposals are totally flawed.

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First, Civil Service retirement is not welfare, but a program of deferred compensation for career employees. Utilizing any type of means test, such as an arbitrary COLA cut-off point, is an insult to retirees.

Secondly, adjusting only a portion of an annuity, say the first \$10,000, penalizes the greatest achievers. As a staff retirement program for a career oriented work force, retirement benefits provide a relatively greater reward for individuals who progressed in the ranks. This incentive to progress is an important feature, and those who have demonstrated initiative during employment should not be penalized in retirement.

Financing--First and foremost, we strongly advocate that the current Civil Service Retirement Fund be maintained as the trust fund for the supplemental retirement program. Various classifications of Federal workers are already contributors and beneficiaries of this major common fund, and we would strongly object to an entirely separate fund being established just for post-1983 Federal new hires. We believe that this objective can be beneficial to both the financial stability of the government's overall retirement system, and to the morale and cohesion of the Federal work force.

Secondly, we feel that the program for new hires should be contributory, although certainly the level of individual contributions must take into account the contributions which these employees must make to Social Security. Joint contributions to the existing CSRS program have demonstrated the partnership between the employee and employer as far as income security upon retirement is concerned, and that partnership should continue.

Coverage--If the supplemental plan which is eventually developed contains a voluntary thrift or salary deferment element, we see no reason to limit participation in that particular feature to those hired after the magic date of January 1, 1984.

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The trend in retirement packages generally is towards more flexibility based on individual considerations and NARFE feels that current employees should be able to exercise all reasonable options in planning for their retirement security.

NARFE would be very concerned, however, if a window were opened and employees encouraged to leave the existing system in favor of the basic benefit program at the yet to be developed plan. A mass exodus could send a devastating message to those who are or soon will be dependent on that system for their retirement income.

In closing, we would like to borrow a phrase from a Member of this House who recently addressed one of our local chapters in his home District. The wisdom of the statement becomes more apparent each day as we deal with the difficult and complex policy issues related to supplemental plan design. When we turn our eyes to plan cost, the sage advice will become even more poignant. The problem may be complex, but the bottom line is simple--"A good retirement system is not cheap; a cheap retirement system is not good."

The Federal government can and should be a potent tool for achieving socially desirable standards for all of our nation's citizens. We must be committed to providing retirement benefits which meet the management needs of government and the individual needs of employees. Government must again become a leader in recognizing an employer's responsibilities to its workers and in setting retirement income security goals to meet the needs of all Americans.

We appreciate your commitment to these goals, Mr. Chairman, and appreciate the opportunity to present this statement today.

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